

file



**ROBERT MORSE
CORPORATION LIMITED**

**ANNUAL
REPORT 1972**

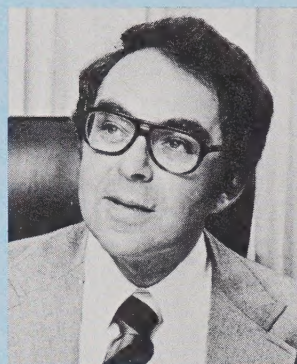
To
our
Shareholders:

The disappointing financial results for 1972 reflect operating problems, the most significant of which we believe have been identified and are in process of correction. We do not expect to resolve all of these problems during 1973, although reasonable progress should be achieved.

It is too early for us to project timing for a return to profitability, but interim reports will keep you informed on our progress to this end.

Robert B. Katkov

Robert B. Katkov
President



Financial Summary

	<u>1972</u>	<u>1971</u>
Net Sales	\$103,829,981	96,983,742
Income (Loss) Before Taxes and Extraordinary Items	(511,950)	1,724,128*
Income Taxes	108,923	909,740*
Income (Loss) Before Extraordinary Items	(620,873)	814,388*
Extraordinary Items	(830,238)	—
Net Income (Loss)	(1,451,111)	814,388*
Earnings per Share		
Before Extraordinary Items		
Class A	(1.18)	0.70
Class B	(1.18)	—*
After Extraordinary Items		
Class A	(2.15)	0.70
Class B	(2.15)	—*
Working Capital	11,586,185	14,136,535
Shareholders' Equity	15,026,739	17,472,380*

*Restated to reflect prior years' adjustments

1972 A Corporate Overview

Robert Morse Corporation, Ltd. has business operations in Canada and the United States and in Europe, South Africa and Australia.

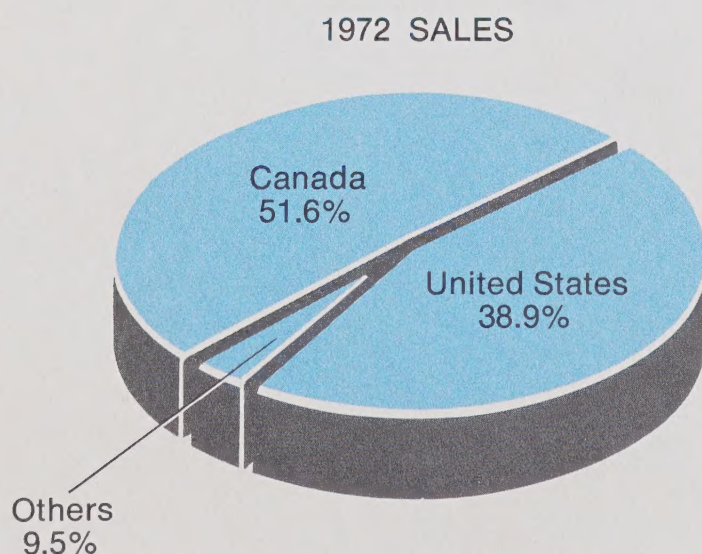
In this report we have limited our discussion to those major businesses in Canada and the United States which represent the bulk of the corporation's investment and whose performance has decisive impact on total sales and earnings.

The net loss of \$1,451,111 on sales of \$103,829,981 reflects a variety of operational failures. Some were dealt with quickly and were well under control by the end of the year. Others are more persistent and are not likely to be resolved even by the end of 1973. Still other problems can be expected to come to light as operating analyses continue.

During 1972, interest payments were \$1,599,226 on a total amount of \$25,277,357 in long and short term borrowings from banks and other financial institutions. Interest costs are a significant depressant on earnings and management of our debt will continue to be a demanding task.

As a result of the foregoing, our financial condition continues weak, necessitating extension over the foreseeable near term of our no-dividend policy on Class A and Class B common stock.

We hope and expect to continue dividend payments on Series A and B preferred shares.

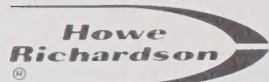


U.S. Operations

The performance of our U.S. operations in 1972 was seriously deficient, resulting in a net loss for the year.

Howe Richardson Scale Company and Johnston Pump Company are faced with persistent operating problems that are not expected to respond quickly to corrective action. As a consequence, we anticipate continuing difficulties in achieving profitable operations in 1973.

Howe Richardson Scale Co.



Howe Richardson is a leading U.S. supplier of industrial weighing equipment and related services.

Its operations during 1972 were unprofitable due principally to depressed prices in competitive markets, higher-than-expected expenditures for field warranty service on new products, provisions for closing unprofitable plant locations in Cleveland and Long Island and inventory adjustments to properly reflect excess and obsolete stock conditions.

1972 performance reflects deep rooted internal operating problems that have been identified for corrective action. However, it is difficult to forecast when and to what degree these actions will be effective.

The company's product lines fall into the following major categories:

General Industrial — Scales ranging in capacity from one pound to a million pounds for use in hundreds of applications, including such diverse fields as agriculture, food processing, construction, transportation

and consumer goods manufacture. This activity produces the major portion of Howe Richardson sales.

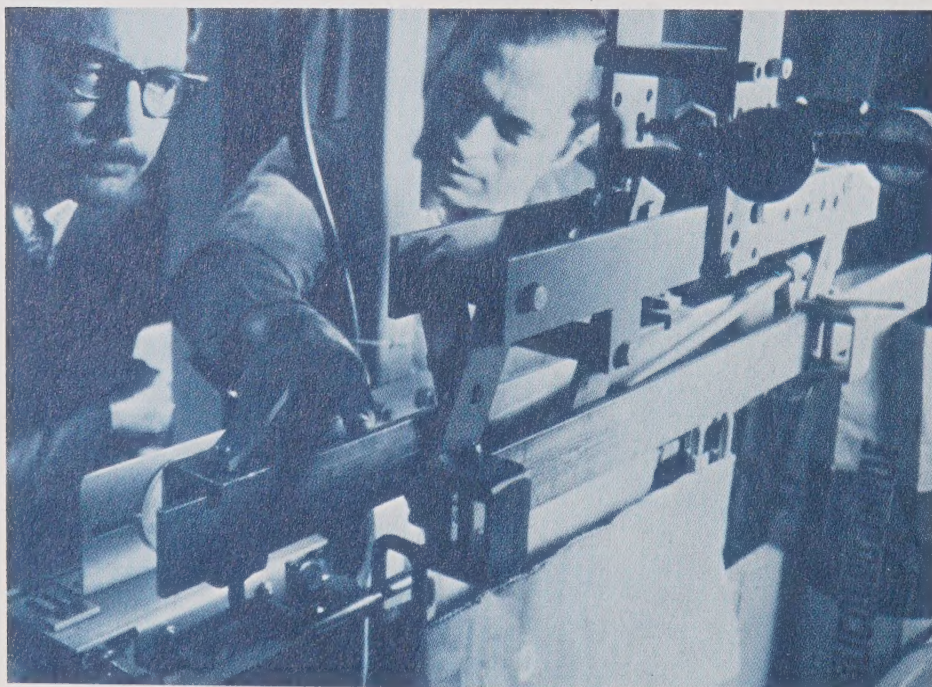
Packaging — Equipment for the weighing and packaging of an extremely wide selection of materials from chemicals, animal feed, grass seed, fertilizer, rock products and nails to candy.

Systems — Weighing and blending systems for different ingredients in many industries requiring precise mixing, such as foods, rubber, plastics, concrete and metals.

Bulk — Scales for shipping, receiving and in-process weighing a wide variety of materials which must be measured in large quantities, such as grain, animal feed, flour and chemicals.

Continuous — Scales to weigh products being moved on a belt or feeder without interrupting the flow, serving many industries as diverse as chemical processing, mining and construction.

Service Operations — Service — which is important both for continued customer acceptance of the company's products and as a revenue source — is provided from company-owned centers in 42 cities in the United States as well as from authorized dealers and agents in other locations.



Bag forming mechanism of automatic packaging system receives inspection prior to shipment from Howe Richardson.

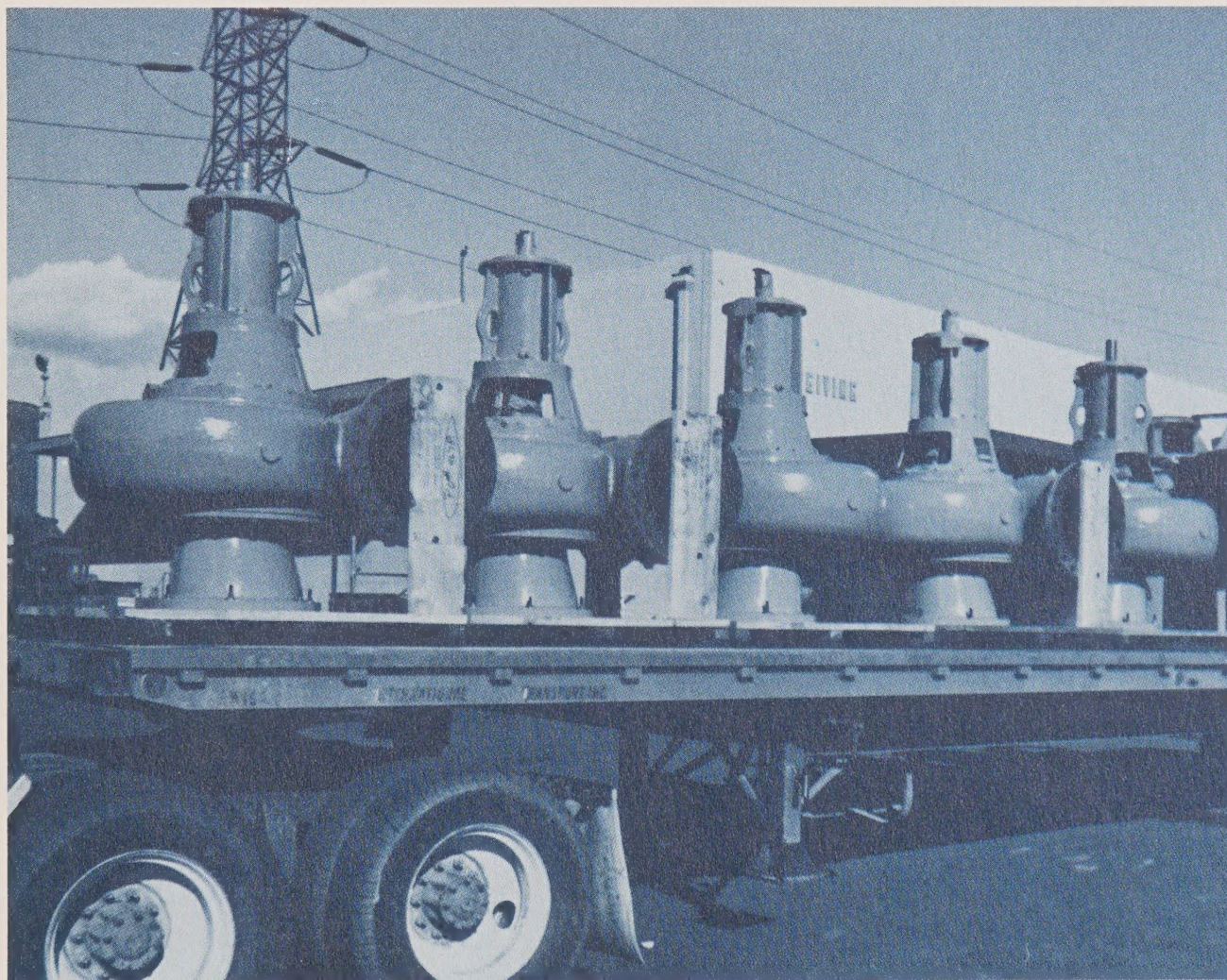
Johnston Pump Co.



Poor operating performance in 1972 was due primarily to problems associated with new product applications and excessive warranty expense.

The company has underlying operating problems which must be remedied before a reliable course of profitable operations can be established. We do not expect these actions to be completed during 1973.

Vertical turbine pumps constitute the largest share of the company's business. In addition, the company historically produces mixed-flow and propeller pumps. During 1972, a new line of volute centrifugal pumps was introduced. Markets served by Johnston include agricultural, industrial and utility, as well as local, state and federal government markets for water and waste treatment.



200 HP 20-inch volute centrifugal pumps are produced by Johnston Pump Company.

Canadian Operations

The 1973 outlook is good for our major Canada-based divisions. The most significant problems were successfully handled during 1972 and, although some continuing cleanup remains, the primary emphasis in 1973 will be on development of business and profit growth.

CESSCO Division



CESSCO is the strongest and steadiest company in the Morse organization, with a record of growing sales and earnings. Continued growth of both sales and earnings is expected for 1973.

CESSCO is recognized as a leading supplier to the Canadian oil and gas industry. Headquartered in Edmonton, Alberta, it serves the oil and gas industry of Western Canada and its future is linked with North America's increasing need for energy.

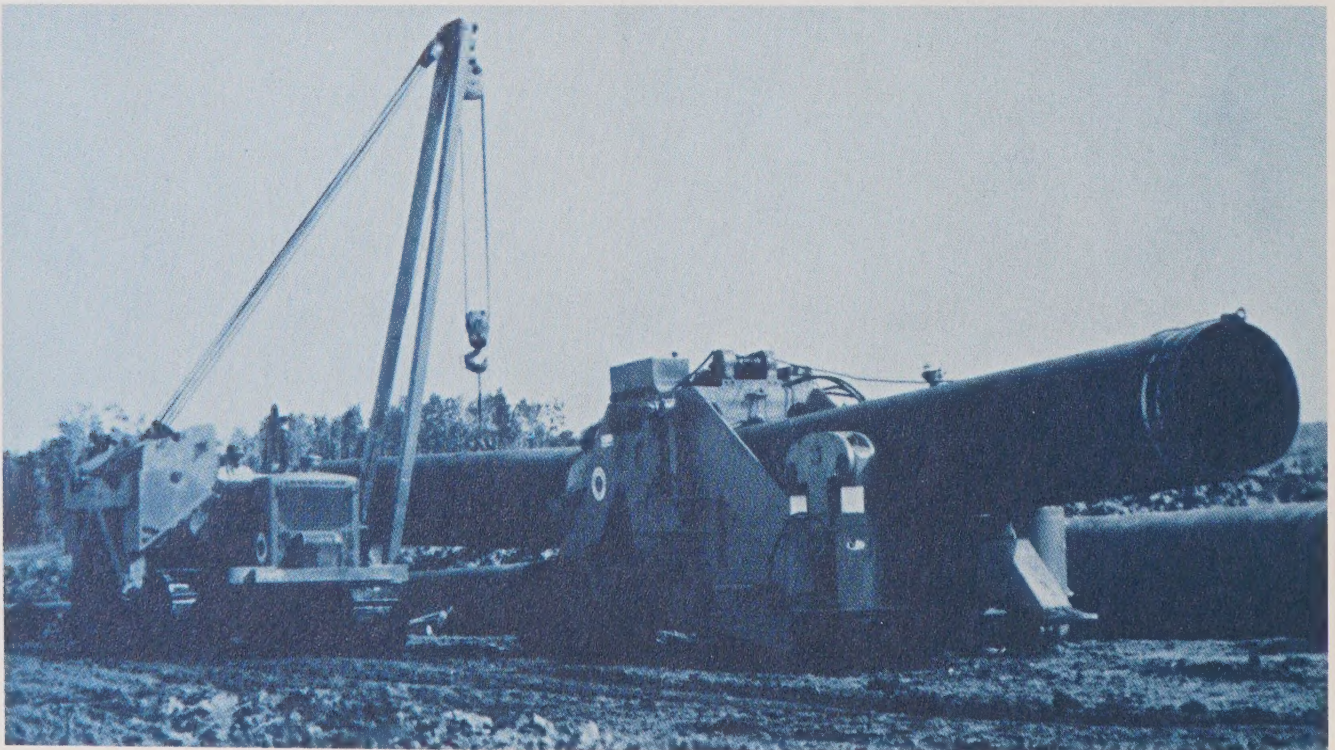
No major corrective actions were required during 1972 within CESSCO, which had stable and competitive operations in three product areas:

- Production Equipment Division, a major fabricator of oil and gas field equipment, offers complete design, engineering and construction services for compressor stations, dry desiccant and gas dehydration units, packaged gas processing plants, separators and water flood treatment plants.

- Manufacturing Division maintains a fully equipped and modern plate fabrication and machine shop, capable of supplying a complete range of pressure vessels, tanks, towers and ancillary equipment to the growing needs of the oil and gas industry.

- Pipeline Supply Division provides sales and rentals of varied equipment, materials and emergency services for the Canadian oil and gas industry, serving both pipeline owners and building contractors. This is separate from the activity of the Morse Canadian Distribution Division.

The comprehensive range of equipment and services offered by CESSCO is unavailable from any other single source in the Canadian oil and gas industry. For this reason, CESSCO can contribute at each phase — from wellhead to gathering, processing, pipeline and final distribution.



CESSCO's large diameter cold bending machine bends 48-inch pipe to the requirements of the terrain.

Canadian Distribution Division

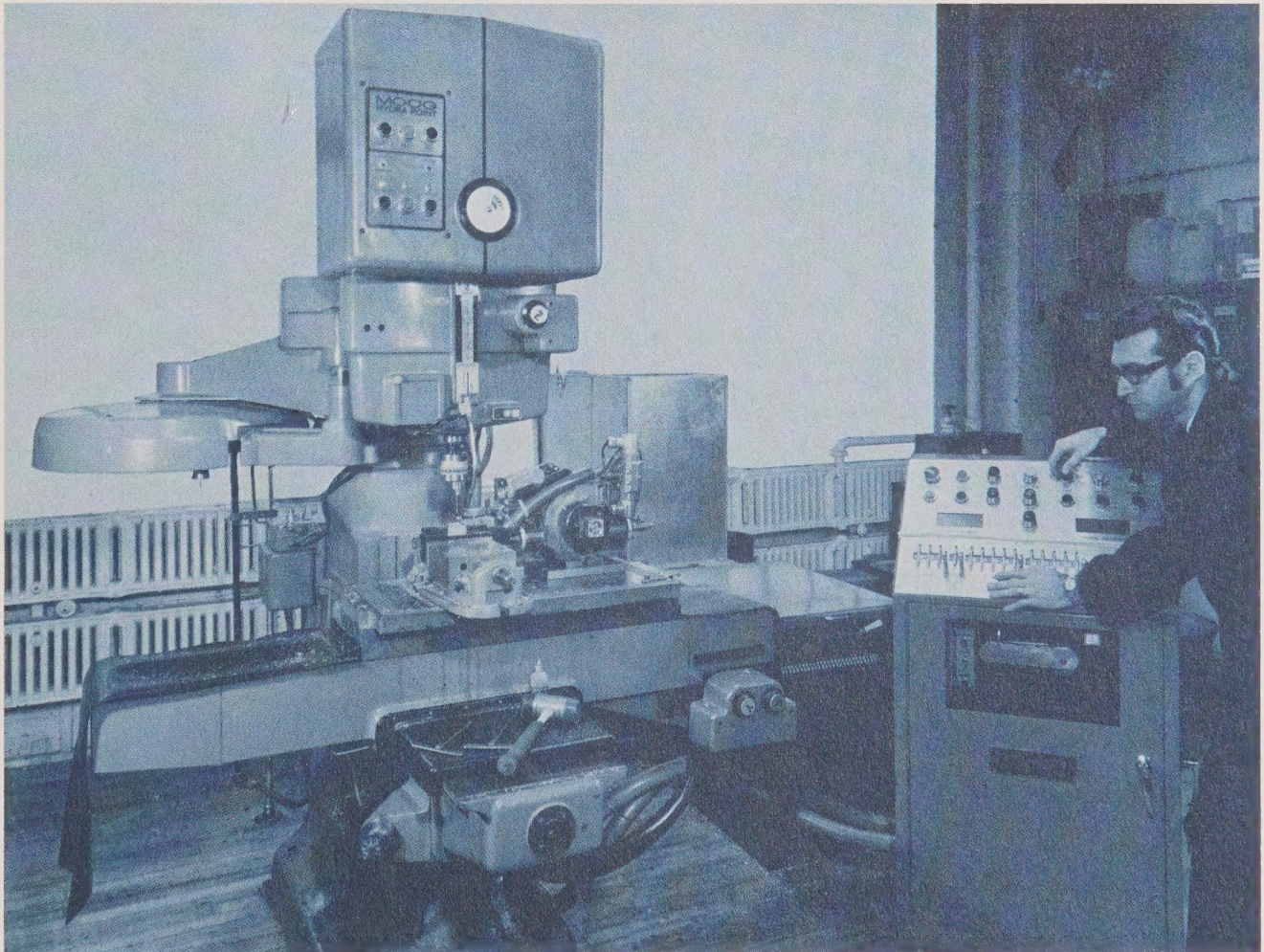


This division, which sells some of the world's best-known machine tools, equipment and supplies to Canada's metalworking and forest industries, posted significant losses in 1972 — principally because of the close-out of unprofitable forestry operations in British Columbia.

However, necessary measures were completed in 1972 to return the division to an aggressive business posture and it is expected to be both stable and profitable in 1973.

A new top management was installed and the internal organization was restructured to provide sales and service coverage equal to the demands and opportunities of the division's market. Specifically, two kinds of specialized sales and service teams were created in the heavily industrialized areas of Ontario and Quebec: one to concentrate exclusively on selling heavy machine tools and the other on equipment and expendable supplies. A third specialized team concentrates on forestry equipment sales and service in Quebec.

The division covers the remainder of Canada with an Atlantic Regional Office in Halifax, N.S. and a Pacific Regional Office in Vancouver, B.C. Each carries the division's full line of machine tools, equipment and supplies.



Moog machining center, sold by the Canadian Distribution Division, features a 24 tool automatic tool changer to provide flexibility with precision.

Consolidated Balance Sheet

	December 31	
	1972	1971
ASSETS		
Current assets:		
Cash	\$ 4,113,958	\$ 1,108,010
Accounts and notes receivable	21,119,491	22,728,479
Income taxes recoverable	889,616	82,292
Inventories, at the lower of cost and net realizable value —		
Finished products, manufactured or purchased	10,620,709	12,279,525
Work-in-process	4,608,314	4,420,140
Raw materials and supplies	4,770,170	4,085,303
	19,999,193	20,784,968
Prepaid expenses	633,916	685,838
	46,756,174	45,389,587
Fixed assets, at cost (Note 5):		
Land	1,059,237	750,414
Buildings	6,757,254	5,540,713
Plant and equipment	12,205,957	11,364,418
	20,022,448	17,655,545
Less: Accumulated depreciation	9,693,324	9,013,042
	10,329,124	8,642,503
Premium on shares of subsidiaries at cost, less amounts written off (Note 6)	1,949,982	2,134,665
	<u>\$59,035,280</u>	<u>\$56,166,755</u>
LIABILITIES		
Current liabilities:		
Bank indebtedness (Note 7)	\$17,082,157	\$18,184,431
Trade and other accounts payable	16,486,766	11,336,391
Income and other taxes (Note 11)	332,350	798,456
Instalments on long-term debt (Note 8)	1,268,716	933,774
	35,169,989	31,253,052
Deferred income taxes	829,817	569,863*
Long-term debt (Note 8)	6,926,484	6,194,116
Unfunded pension liability	1,025,605	628,052*
Minority interest in subsidiaries	56,646	49,292
Shareholders' equity:		
Capital stock (Note 9) —		
Authorized —		
200,000 preferred shares of the par value of \$50 each,		
issuable in series		
4,000,000 Class A shares without nominal or par value		
2,000,000 Class B shares without nominal or par value		
Issued —		
5½ % cumulative redeemable convertible preferred shares —		
70,540 Series A shares	3,527,000	3,527,000
72,000 Series B shares	3,600,000	3,600,000
Shares without nominal or par value —		
602,807 Class A shares }	3,785,606	3,785,606
254,135 Class B shares }		
	10,912,606	10,912,606
Retained earnings (Note 10)	4,114,133	6,559,774*
	15,026,739	17,472,380
(See Notes to Financial Statements)		
*Restated to reflect prior years' adjustments (Note 12)	<u>\$59,035,280</u>	<u>\$56,166,755</u>

APPROVED BY THE BOARD:

R. B. Katkov, Director

N. E. Johannsen, Director

Consolidated Statement of Income

	Year ended December 31	
	1972	1971
Net sales	<u>\$103,828,981</u>	<u>\$ 96,983,742</u>
Income from operations for the year before the undernoted items	<u>\$ 2,153,898</u>	<u>\$ 4,391,310*</u>
Interest (including \$429,083 on long-term debt)	1,599,226	1,607,804
Depreciation	1,059,268	1,056,300
Minority interest	7,354	3,078
	<u>2,665,848</u>	<u>2,667,182</u>
Income (loss) before income taxes and extraordinary items	(511,950)	1,724,128
Income taxes	108,923	909,740
Income (loss) before extraordinary items	<u>(620,873)</u>	814,388
Extraordinary items (Note 3)	<u>(830,238)</u>	—
Net income (loss) (Note 2)	<u>\$ (1,451,111)</u>	<u>\$ 814,388</u>

(1.18)

Consolidated Statement of Retained Earnings

Balance at beginning of year:		
As previously reported	\$ 6,854,957	\$ 7,355,040
Prior years' pension adjustments (Note 12)	<u>295,183</u>	<u>214,236</u>
As restated	6,559,774	7,140,804
Net Income (loss)	<u>(1,451,111)</u>	<u>814,388</u>
	5,108,663	7,955,192
Payment of guarantee price in respect of share purchase warrant (Note 9)	<u>171,711</u>	<u>171,904</u>
	4,936,952	7,783,288
Dividends:		
Series A preferred shares — \$2.75 (\$2.75 in 1971)	193,985	193,985
Series B preferred shares — \$2.75 (\$2.75 in 1971)	198,000	198,000
Class A shares — \$0.52½ (\$1.00 in 1971)	316,473	602,807
Class B shares — \$0.45 (\$0.90 in 1971)	<u>114,361</u>	<u>228,722</u>
	822,819	1,223,514
Balance at end of year	<u>\$ 4,114,133</u>	<u>\$ 6,559,774</u>

(See Notes to Financial Statements)

*Restated to reflect prior years' adjustments (Note 12)

Consolidated Statement of Source and Application of Funds

	Year ended December 31	
	<u>1972</u>	<u>1971</u>
Funds provided:		
From operations —		
Income (loss) before extraordinary items	\$ (620,873)	\$ 814,388*
Depreciation	1,059,268	1,056,300
Deferred income taxes	<u>259,954</u>	<u>(116,453)*</u>
	698,349	1,754,235
Extraordinary items (Note 3)	(830,238)	—
Increase in long-term debt	732,368	1,020,898
Increase in unfunded pension liability	397,553	628,052*
Premium on shares of subsidiaries written off (Note 6)	<u>265,457</u>	<u>—</u>
	1,263,489	3,403,185
Funds applied:		
Dividends paid	822,819	1,223,514
Additions to fixed assets (net)	2,745,889	738,556
Payment of guarantee price in respect of share purchase warrant (Note 9)	171,711	171,904
Prior years' pension plan adjustment before deducting deferred income taxes \$241,214	—	455,450*
Other	<u>73,420</u>	<u>42,882</u>
	3,813,839	2,632,306
Increase (decrease) in working capital	<u>\$ (2,550,350)</u>	<u>\$ 770,879</u>

(See Notes to Financial Statements)

*Restated to reflect prior years' adjustments (Note 12)

Notes to Consolidated Financial Statements

December 31, 1972

1. BASIS OF CONSOLIDATION:

The consolidated financial statements include the accounts of Robert Morse Corporation Limited and those of all of its subsidiary companies.

Accounts of subsidiaries expressed in currencies other than Canadian have been translated into Canadian dollars at rates of exchange current at December 31, 1972, except (a) fixed assets, long-term liabilities and depreciation provision, at rates prevailing at dates of acquisition or issue, (b) deferred income taxes at rates prevailing at dates of origin and (c) income and expenses (other than depreciation) at the average rates of exchange in effect during the year.

2. STATEMENT OF INCOME — MANAGEMENT ADJUSTMENTS:

On July 26, 1972, Aerojet-General Corporation acquired 86.82% of the Class B voting shares of the Company. Subsequently, new management undertook an intensive review of all operating units, as a result of which the 1972 loss of \$1,451,111 incorporates approximately \$1,700,000 of charges that relate principally to shut-down and consolidation of loss operations in Europe, the United States and Canada, including related write-downs of inventory and accounts receivable.

3. EXTRAORDINARY ITEMS:

Premium on shares of subsidiaries written off (Note 6)	\$265,457
Plant abandonment relating to a relocation of operations (net of income taxes of \$152,332)	164,781
Provision for losses to be incurred on realigning the operations of a subsidiary	400,000
	<u>\$830,238</u>

4. EARNINGS PER SHARE:

	1972		1971
	Before extraordinary items	Net income for year	Net income for year
Class A	\$(1.18)	\$(2.15)	\$0.70
Class B	\$(1.18)	\$(2.15)	—*

There would be no significant dilution in earnings per share if all conversion and option privileges described in Note 9 were exercised.

*Restated to reflect prior years' adjustments (Note 12)

5. FIXED ASSET ACCOUNTING POLICIES:

Depreciation recorded in the accounts is calculated generally on a straight line basis with rates based on estimated useful lives of the respective assets.

Expenditures for ordinary maintenance and repairs is charged to income as incurred. Costs of betterments and major replacements are capitalized. At the time properties are retired or otherwise disposed of, the related costs and accumulated depreciation are eliminated from the accounts, and the resulting profit or loss on disposition is reflected in income.

6. PREMIUM ON SHARES OF SUBSIDIARIES:

Premium on shares of subsidiaries of \$1,949,982 represents the excess of the cost of investments over the Company's equity in subsidiaries less amounts written off at the discretion of management pertaining principally to unprofitable companies or companies that have discontinued operations. Management has not established a formalized amortization policy but writes off premiums as it becomes evident the underlying value no longer exists. In the year ended December 31, 1972, \$265,457 was written off and charged against operations as an extraordinary item (Note 3).

7. BANK INDEBTEDNESS:

Bank indebtedness is secured mainly by shares of subsidiary companies held as collateral (secured \$11,546,507 in 1972; \$11,818,509 in 1971). Bank indebtedness includes bankers' acceptances of \$3,000,000 in 1972 and \$3,000,000 in 1971.

	1972	1971
Note* payable in semi-annual instalments of U.S. \$91,386 to 1990 (effective interest rate 5.15%)	\$2,373,037	\$2,456,898
Note* payable in semi-annual instalments of U.S. \$126,183 to 1975 (effective interest rate 5.15%)	734,192	964,937
Bank loans** payable in semi-annual instalments of U.S. \$200,000 to 1976 (interest 1/2 % above bank base rate)	1,601,248	2,005,000
6 1/2 % mortgage loan* payable quarterly to 1987	1,395,099	1,441,766
Bank loan* in German D.M. 1,500,000 payable 1977 (interest 6 1/8 % to 1973 and thereafter 1 1/2 % above the inter-bank interest rate for German D.M.)	468,810	—
Balance of purchase agreement* payable in semi-annual instalments of German D.M. 500,000 to 1974 (interest 1 % above the lending bank's U.K. base rate)	779,981	—
Bank loan* payable in quarterly instalments of German D.M. 37,000 to 1979 (interest rate 7%)	318,472	—
Bank loan* German D.M. 1,000,000 revolving credit renegotiable half yearly commencing 1973 and available until 1977 (interest rate 7 1/2 %)	307,200	—
Other term obligations payable before 1978	217,161	259,289
	<u>8,195,200</u>	<u>7,127,890</u>
Less: Amount due within one year, included with current liabilities	1,268,716	933,774
	<u>\$6,926,484</u>	<u>\$6,194,116</u>

*Secured by collateral mortgages or trust deeds against certain fixed assets

**Secured by pledge of outstanding capital stock of a subsidiary

9. CAPITAL STOCK:

(a) Preferred shares –

The 5½ % cumulative redeemable convertible preferred shares are redeemable at any time, at the Company's option, at par.

(b) Class A and Class B shares –

The holders of Class A shares are entitled to cumulative dividends at the rate of 70 cents per share per annum, payable in equal quarterly instalments of 17½ cents per share each. After provision for all such cumulative dividends accrued on the Class A shares, non-cumulative quarterly dividends up to 15 cents per share may be paid on the Class B shares. After dividends paid on the Class B shares in any fiscal year have aggregated 60 cents per share, the Class A shareholders are entitled to participate equally with the holders of Class B shares in such further amounts per share as may be declared. The Class A shares are non-voting unless arrears of cumulative dividends aggregate \$1.40 per share.

Three quarterly dividends were paid on the Class A and Class B shares in 1972 on March 1st, June 1st and September 1st. The dividends normally payable on December 1st were omitted and at the year-end the Class A shareholders were entitled to a cumulative dividend of 17½ cents per share. The Company may purchase for cancellation any or all of the outstanding Class A shares by invitation for tenders addressed to all holders or in the open market, after having notified vendors that the Company is the purchaser.

(c) Conversion privileges and warrant –

(i) The conversion privilege attached to the Series A preferred shares entitles the holders thereof to convert each preferred share at any time into 2½ Class A shares upon payment to the Company of \$7.50 for each preferred share converted.

(ii) The conversion privilege attached to the Series B preferred shares entitles the holders thereof to convert each preferred share at any time into 2 Class A shares upon payment to the Company of \$2.00 for each preferred share converted.

(iii) In 1962 the Company issued a warrant, exercisable to December 31, 1971, for the purchase of up to 150,000 Class A shares of the Company at a price of U.S. \$10 per share. In 1968 the terms of this warrant were amended so as to provide for the annual exercise of the rights under the warrant, commencing in 1969, to the extent of 2% of the aggregate number of Class A and Class B shares outstanding at the previous year end. In consideration for the amendment of the warrant, the Company has given its original holder a non-transferable guarantee of a net price, upon sale or transfer of any part of the warrant, equal to not less than the difference between \$20 Canadian and the Canadian equivalent of U.S. \$10 per share. In 1972 rights with respect to 17,139 Class A shares were cancelled upon payment by the Company to the holder of the warrant of \$171,711 representing the guaranteed price with respect to such shares. This payment has been charged to retained earnings. To December 31, 1972 rights with respect to 68,344 Class A shares have been exercised or cancelled and, in accordance with the provisions of the warrant, 17,139 Class A shares will be issued in 1973 or rights to such shares not issued will be cancelled upon payment of the guarantee.

(d) Reservation of shares –

Class A shares are reserved as follows –

For conversion privilege attached to Series A preferred shares	176,350
For conversion privilege attached to Series B preferred shares	144,000
For warrant issued in 1962 exercisable at U.S. \$10 per share	81,656
For issue to Trustees of the Company's Stock Purchase Plan at a price to be determined at date of issue	5,000
For an option granted in 1968 to an officer of a subsidiary exercisable at \$18 per share to February 15, 1973	3,000
For an option granted in 1970 to an officer of a subsidiary exercisable at \$15 per share to November 14, 1975	3,000
Total Class A shares reserved	<u>413,006</u>

10. RETAINED EARNINGS:

Under the provisions attached to the Series A and Series B preferred shares, none of the retained earnings as at December 31, 1972 is available for payment of dividends on Class A and Class B shares or for purchase for cancellation of Class A shares. Dividends paid in 1972 together with losses recorded in the latter part of 1972 have had the effect of reducing retained earnings by \$782,000 below the level specified by the aforementioned provisions. Before future dividends can be paid on Class A and Class B shares the Company must have achieved consolidated net earnings of \$782,000, plus the dividends paid on preferred shares subsequent to December 31, 1972.

11. INCOME TAX:

(a) Two United States subsidiaries have received notices of proposed income tax deficiencies relating to management fees and other inter-company charges for the years 1964-70 inclusive. Similar items are present in the years 1971 and 1972. The proposed deficiencies are being vigorously contested in the U.S. tax courts and the subsidiaries' position is considered strong.

At the suggestion of the Internal Revenue Service and with advice of counsel and auditors, relief has been sought under the Canada – U.S. Reciprocal Tax Convention from any potential double taxation which could arise for the Company and its subsidiaries. Should the U.S. and Canadian authorities fail to reach a conclusion acceptable to the Company and its U.S. subsidiaries, the latter retain the right to pursue the contesta-

tion in the U.S. tax courts and it is the view of counsel that should the case be so tried, the taxpayers would prevail. There is no way of determining the liability, if any, under these proposed deficiencies at this time. No provision has therefore been made in the accompanying financial statements for additional liabilities, if any, which may arise in respect of the years 1964-72 inclusive.

(b) The Company and certain subsidiaries have an aggregate of approximately \$3,000,000 in tax losses available for deduction from income in determining future years' income taxes payable. No provision has been made in the consolidated accounts for anticipated benefits from future utilization of these losses.

12. PENSION PLANS:

Pension plans have been established by the Company and its subsidiaries, for the greater part contributory and generally open to all employees. Pension costs incurred for 1972 approximated \$620,000. As of December 31, 1972 the unfunded liability in respect of past service costs has been reflected in the accounts. The statement of retained earnings reflects a prior years' adjustment of \$295,183 representing the net-of-tax effect of introducing into the accounts of one of the subsidiaries a previously unrecorded pension liability.

13. REMUNERATION OF DIRECTORS AND OFFICERS:

	1972	1971
	No. Remuneration	No. Remuneration
Directors at year-end	6	12
Past Directors	14	2
Aggregate remuneration as Directors	\$ 10,300	\$ 20,699
Officers at year-end	7	9
Past Officers	4	—
*Aggregate remuneration as Officers	\$381,787	\$371,092
Number of Officers who are also Directors	1	5

*these amounts include \$76,620 paid by two subsidiaries in 1972 and \$44,776 paid by one subsidiary in 1971.

Upon Aerojet-General Corporation acquiring voting control, the former directors resigned and were replaced by the present Board.

14. COMMITMENTS AND CONTINGENCIES:

Commitments and contingencies aggregate approximately \$3,070,000 relating to:

(a) sales contracts discounted by two companies (\$2,090,000); (b) lease rentals extending from three to twenty years (\$474,000 annually); (c) unpaid cumulative dividends on Class A shares (\$105,591); (d) various customer claims being contested by legal counsel (\$400,000).

Auditors' Report

Price Waterhouse & Co.

chartered accountants

5 Place Ville Marie, Montreal 113, Que.

To the Shareholders of
Robert Morse Corporation Limited:

We have examined the consolidated balance sheet of Robert Morse Corporation Limited and subsidiary companies as at December 31, 1972 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination of the financial statements of Robert Morse Corporation Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting for pension costs referred to in note 12 to the financial statements, on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

PRICE WATERHOUSE & CO.
Chartered Accountants

February 28, 1973

Ten-Year Review

(In Thousands of Dollars except for Per Share Data)

OPERATING RESULTS

	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963
Net Sales	\$103,829	\$ 96,983	\$107,667	\$119,053	\$101,960	\$ 95,574	\$ 93,280	\$ 80,359	\$ 69,422	\$ 60,114
Income (Loss) before Taxes	(512)	1,724(a)	2,158	3,685	2,890	3,209	3,577	2,558	1,618	1,138
Income Taxes	109	910(a)	1,649	2,229	1,522	1,396	1,633	1,011	336	136
Income (Loss) before Extraordinary Items	(621)	814(a)	509	1,456	1,368	1,813	1,944	1,547	1,282	1,002
Net Income (Loss)	(1,451)	814(a)	(192)	1,456	2,068	2,433	1,944	1,547	1,282	1,002
Preferred Share Dividends	392	392	392	393	395	321	124	—	—	—
Class A and B Share Dividends	431	832	832	828	817	762	643	531	624	200
Depreciation	1,059	1,056	1,106	1,046	934	736	620	602	596	539
Funds Provided from Operations	698	1,754(a)	1,685	2,558	2,218	2,705	2,564	2,150	1,878	1,541

FINANCIAL POSITION

Working Capital	\$ 11,586	\$ 14,137	\$ 13,366	\$ 16,693	\$ 17,180	\$ 19,730	\$ 14,351	\$ 11,724	\$ 6,098	\$ 6,293
Total Assets	59,035	56,167	58,332	62,885	61,226	52,148	48,990	41,005	36,511	30,377
Long-Term Debt	6,926	6,194	5,173	6,966	7,480	8,149	6,941	7,556	2,990	3,522
Shareholders' Equity	15,027	17,472(a)	18,268	20,062	19,983	19,208	13,636	8,999	8,062	7,330

SHAREHOLDER INFORMATION Per Share

Earnings (Loss)										
— Class A	(1.18);(2.15)(b)	0.70	0.19;(0.68)(b)	1.27	1.18;2.01(b)	1.87;2.64(b)	2.35	2.05	1.73	1.37
— Class B	(1.18);(2.15)(b)	—(a)	—;(0.68)(b)	1.17	1.08;1.91(b)	1.77;2.54(b)	2.25	1.95	1.63	1.27
Dividends										
— Preferred A	2.75	2.75	2.75	2.75	2.75	2.75	1.72½	—	—	—
— Preferred B	2.75	2.75	2.75	2.75	2.75	1.71½	—	—	—	—
— Class A	0.52½	1.00	1.00	1.00	1.00	0.97½	0.85	0.72½	1.22½	0.40
— Class B	0.45	0.90	0.90	0.90	0.90	0.87½	0.75	0.62½	—	—
Shareholders' Equity — Class A and B	9.22	12.07	13.00	15.09	15.12	14.29	12.65	11.58	10.55	9.79

Average Shares Outstanding

Class A	603,000	603,000	603,000	599,000	589,000	557,000	531,000	517,000	506,000	499,000
Class B	254,000	254,000	254,000	254,000	254,000	254,000	254,000	250,000	250,000	250,000

(a) Restated to reflect prior years' adjustments

(b) Including extraordinary items

Organization

HOWE RICHARDSON SCALE COMPANY,

Clifton, New Jersey.

Walter M. Young, *President*
John W. Aquadro, *Vice-President — Weighing Programs Management*
Arthur J. Burke, *Vice-President — Engineering*
Gerald J. Devine, *Vice-President — Midwest Region*
Edward L. Ervin, *Vice-President & General Sales Manager*
Joseph Giner, *Vice-President — Marketing*
Russell J. Pederson, *Vice-President — Finance*
George D. Wilkinson, *Vice-President — National Service*

CANADIAN SCALE DIVISION

Mackey Automation and Controls Ltd.,
Montreal, Quebec.

Layton C. Merriam, *General Manager*

HOWE RICHARDSON SCALE CO. LIMITED,

Midland Sheet Metal Works
(Nottingham), Ltd.,
Nottingham, England.

T. Alan Shore, *Managing Director*

HOWE RICHARDSON SCALE (AFRICA) (PROPRIETARY) LIMITED,

Johannesburg, South Africa.

George Oliver, *Managing Director*

RICHARDSON SCALE COMPANY (FRANCE) S.A.,

Paris, France.

Michel Reve,
President & Managing Director

HOWE RICHARDSON SCALE CO. PTY. LIMITED,

Broadmeadow, Australia.

John James, *Managing Director*

CHRONOS-WERK, REUTHER & REISERT GmbH,

Hennef, West Germany.

Albrecht Breiden, *General Manager*

JOHNSTON PUMP COMPANY,

Glendora, California.

Donald A. Johnson,
President & General Manager
Robert C. Kunzelman,
Vice-President — Marketing
William S. Thomas,
Vice-President — Controller

GALBRAITH & SULLEY LIMITED,

Vancouver, B.C.

Gordon S. Robertson,
President & General Manager

CANADIAN EQUIPMENT SALES & SERVICE CO. LTD.,

Edmonton, Alberta.

William Suter, *President*

CESSCO DIVISION,

Edmonton, Alberta.

William Suter, *President*
Laurence Wenger, *Vice-President & General Manager — Pipeline*
Don W. Rushton, *General Manager — Production Equipment*
J. H. Slobodan, *Manager — Engineering Department*

MID-WESTERN COMPRESSOR SUPPLIES LTD.

MID-WESTERN MACHINE WORKS LTD.,

Calgary, Alberta.

William Suter, *President*
Noel R. Bambrough,
Vice-President & General Manager

ROBERT MORSE APPLIANCES LIMITED,

Edmonton, Alberta.

William L. Foote,
Executive Vice-President

CANADIAN DISTRIBUTION DIVISION,

Montreal, Quebec.

Arnold R. Tunis,
President and General Manager

Machine Tools
Montreal, Quebec
Meredith S. Hayes, *Vice-President*

Atlantic Region:
Equipment and Supply —
Machine Tools
Nova Scotia, New Brunswick,
Newfoundland
J. Rees Alverson, *General Manager*

Equipment and Supply
Quebec
Jack E. Reichelt, *General Manager*

Forestry and Construction Equipment
Quebec
Douglas C. Sproull, *General Manager*

Machine Tools
Quebec, Ontario
A. F. Mundy, *General Manager*

Equipment and Supply
Ontario, Manitoba
Allen L. Matthews, *General Manager*

Pacific Region:
Equipment and Supply —
Machine Tools
British Columbia, Alberta
H. Irwin Allen, *General Manager*

Board of Directors/ Corporate Officers

DIRECTORS

W. R. Heckman
N. E. Johannsen
R. B. Katkov
J. J. Lipper
E. A. Lowe, Jr.
J. H. Vollbrecht

CHIEF EXECUTIVE OFFICER

Robert B. Katkov, *President*

OTHER OFFICERS

D. A. Johnson, *Vice-President*

→ D. B. Sinclair,
Vice-President and Controller

→ R. Smillie, *Senior Vice-President — Finance and Secretary*

William Suter, *Vice-President*

W. M. Young, *Vice-President*

EXECUTIVE OFFICES

1155 Dorchester Boulevard West,
Montreal 102, Quebec

AUDITORS

Price Waterhouse & Co., Montreal.

TRANSFER AGENTS

The Royal Trust Company

The First National Bank of Chicago



**ROBERT MORSE
CORPORATION LIMITED**

A Canadian Company with subsidiaries in the United States and abroad

MANUFACTURERS, DISTRIBUTORS

- Machine tools, equipment and supplies for Canadian metalworking industry.
- Equipment for Canadian forestry industry.
- Equipment, supplies and service for Canadian oil industry.
- Industrial weighing equipment and related services for North America and abroad.
- Agricultural, ecological, industrial and utility pumps in the United States and abroad.



Manufacturers of:

Process control systems
Scales and weighing systems
Packaging equipment
Bulk handling equipment
Vertical irrigation and industrial pumps
Propeller and mixed flow pumps
Control panels
Sawmill machinery
Specialized production equipment for the
oil and gas industry
Pressure vessels

Canadian Distributors of:

Machine tools and metalworking machinery
Industrial equipment and supplies
Industrial pumps
Forestry and construction equipment
Compressor supplies
Pipeline equipment
Plastic pipe



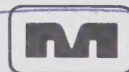
**ROBERT MORSE
CORPORATION LIMITED**

A Canadian Company with subsidiaries in the U.S. and abroad.
Executive Offices: 1155 Dorchester Blvd. West,
Montreal 102, Quebec.

INTERIM REPORT TO SHAREHOLDERS

SIX MONTHS
ENDED
JUNE 30, 1972

file



**ROBERT MORSE
CORPORATION LIMITED**

To Our Shareholders:

On July 26, 1972, Aerojet-General Corporation of El Monte, California, purchased controlling interest in the Class B shares of the Company from Robert Morse III and the Morse family. Mr. Morse stepped down as a director and as president and chief executive officer. The undersigned was appointed by the Board to succeed him.

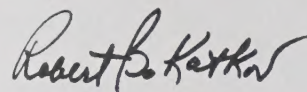
The financial results for the first six months, prepared prior to the above change, show consolidated net profit for the six months ended June 30th, 1972 of \$378,000, compared with \$6,000 the prior year. Net sales for the period in 1972 were \$49,170,000 compared with \$46,555,000 a year earlier.

During the period, the Company completed acquisition of Chronos-Werk in Hennef, West Germany. This internationally-respected firm, which manufactures automatic and other weighing equipment and pack-

aging machinery, has 350 employees and \$5,000,000 annual sales.

Quarterly dividends will be paid September 1 to shareholders of record August 18, as follows:

Series A Preferred Shares	—	68¾¢
Series B Preferred Shares	—	68¾¢
Class A Shares	—	17½¢
Class B Shares	—	15¢



Robert B. Katkov

President and Chief Executive Officer

July 26, 1972

Interim Consolidated Statement of Earnings

Orders Booked
Net Sales
Income Before Taxes
Income Taxes
Net Income

Per Share (After Preferred Dividends)

— Class A
— Class B

Six Months Ended June 30

1972	1971	% Change
<u>\$51,060,000</u>	<u>\$45,644,000</u>	+ 11.9
<u>\$49,170,000</u>	<u>\$46,555,000</u>	+ 5.6
<u>\$ 746,000</u>	<u>\$ 319,000</u>	+ 133.9
<u>\$ 368,000</u>	<u>\$ 313,000</u>	+ 17.6
<u>\$ 378,000</u>	<u>\$ 6,000</u>	
<u>\$ 0.30</u>	<u>\$ (0.22)</u>	
<u>—</u>	<u>\$ (0.22)</u>	

Notes

1. The Interim Consolidated Statement of Earnings is subject to audit and year-end adjustment.

2. A Statement of Source and Application of Funds is customarily omitted from interim reports as the delay in receiving information from certain overseas subsidiaries would unduly postpone the reporting of earnings.